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SUBJECT: TAJIKISTAN - BACK IN THE USSR AT TALCO

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¶1. (U) Summary: TALCO, Tajikistan's state-owned aluminum company, which accounts for perhaps one third of the country's gross domestic product, faces a number of challenges. During a recent visit to the plant, EmbOffs observed that the Soviet-style company remains dependent on electricity at below-market rates, and on cheap labor. Two thirds of its staff is devoted to non-core activities; maintenance and repair, and social support services. TALCO risks a brain drain of engineers and attrition of its labor force to neighboring countries, particularly Russia. More generally, the plant serves as the president's cash cow, and keeping it running for this purpose undermines the Tajik economy. End Summary.

A Major Source of Income - But At a Cost

¶2. (U) TALCO is the Tajik government's largest source of revenues. It generates 33% of the country's gross domestic product, 48% of its export revenues, and 75.3% of its foreign currency reserves. TALCO produced 421,000 tons of aluminum in 2007, and company representatives expect production to increase by 6,000 tons in 2008.

TALCO imports raw materials from India, Azerbaijan, Kazakhstan, Venezuela, and Russia. TALCO's leadership has announced its intention of mining for raw material inputs in Tajikistan. However, the capital required for investment makes major mining operations an unlikely prospect anytime soon.

¶3. (U) TALCO consumes 8 billion kilowatt hours of electricity per year - nearly half of Tajikistan's 2007 electricity production. Barki Tojik, the country's electricity monopoly, sells electricity to TALCO for \$.01/kilowatt hour. Barki Tojik plans to increase the price to \$.025/kilowatt hour by 2010, which TALCO's operating management claims could still allow profit once the company implements planned modernizations. USAID estimates the "commercial rate" at which Barki Tojik could maintain and repair its current operation is \$.045/kilowatt hour. [Comment: USAID-funded studies suggest that income from Tajik electricity at commercial rates exported to Afghanistan, or Pakistan would exceed the income from TALCO.] TALCO has recently made moves to be more directly involved in the energy sector. The company recently purchased a \$15 million heating station project near Dushanbe and a \$25 million power station in Turkmenistan. [Comment: Such activity by the largest State-owned company serves as another indication that the government continues to cling to a Soviet-style, centrally run economy.]

¶4. (U) The government must devote considerable political resources to keeping TALCO going. During the recent winter power crisis, the government allowed TALCO to operate at near full capacity for several weeks, while the rest of the country suffered from severe

shortages. President Rahmon negotiated with Turkmenistan to secure a supply of power and Uzbekistan provided assistance during the crises by repairing the high voltage line connecting Turkmenistan and Uzbekistan to Tajikistan, which had been out of commission since 2001.

Management - Back in the USSR

¶5. (U) While TALCO remains Tajikistan's premier industrial entity, it continues to face severe management difficulties. Nine major lawsuits resulting from mismanagement and corruption have cost the company over \$60 million in court fees. TALCO has not substantially updated its facilities or equipment since it was founded in 1975 and has not significantly increased production capacity throughout its 33 year existence. Of 12,600 employees, only 4500 actually work on aluminum production. The company devotes an even greater number of employees (4600) to equipment maintenance and repair. The remaining 3600 employees provide administrative and social support. TALCO houses about a third of its workforce in company-owned apartments, and builds 45 new apartment units every year. It also runs schools, hospitals, and other services for its staff.

¶6. (U) Tajikistan's declining education system and economic conditions means that the company has difficulty both in finding and retaining skilled workers. A deteriorating economic situation has led to a brain drain. In December 2007, twelve TALCO engineers left to work for the Pavlodar aluminum smelter in Kazakhstan, lured by higher salaries, better benefits, and bigger apartments. TALCO's Production Department Director Uktam Haidarov expressed his concern that more of TALCO's less skilled employees will flee to Russia in search of higher paying jobs over the coming years. He named this as the number one problem the company faced. [Comment: we would argue that it's number two, behind the non-commercial basis of the whole enterprise.]

¶7. (U) The management at the plant is removed from the financial and
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trade aspects of the business. They merely process production orders received from TALCO's central headquarters located an hour's drive away in Dushanbe, and receive inputs of raw alumina and electricity in return. TALCO relies on a tolling system in which the company receives a fixed pre-negotiated fee for the processing of alumina. As a result, the company is losing out on potentially hundreds of millions of dollars to offshore tolling companies (see next paragraph). In April of 2007 the IMF reported that TALCO is receiving less than a quarter of the international benchmark price for its aluminum. The World Bank has publicly criticized the management for "very limited" international accounting standards, inappropriate selection of auditors, and firing auditors after conflicts over their reports. TALCO's management claims that the company pays a large part of the government budget, but avoids revealing specific figures.

Follow the Money

¶8. (SBU) Although TALCO has been under President Rahmon's de facto authority since 1994, TALCO officially came under direct control of President Rahmon's family in 2004. The company is not governed by a board of directors or any other type of executive committee. The President's brother-in-law, Hasan Sadullozoda, does not hold a title at TALCO, but has close ties with the company's management and makes or endorses all major decisions. A recent Asia Times article reported that cash from major tolling arrangements flows through an intermediary company called TALCO Management Ltd (TML), registered in the British Virgin Islands. The Tajik government owns 70% of the TML and the rest is owned by wealthy Tajik individuals, presumably including members of the Rahmon family. The difference between TALCO's smelter receipts and the declared value of the exported aluminum, which runs in the hundreds of millions of dollars, may provide some indication of the amount of money going through TML.

¶9. (U) The Tajik Government has strongly resisted privatization of

TALCO, arguing that as the sole money maker for Tajikistan's industrial sector, TALCO should be under the direct supervision of the government. In a public speech in 2006, President Rahmon formally stated that the Government would not privatize TALCO.

Comment

¶10. (SBU) Comment: TALCO's aluminum factory is an impressive sight, but like many of the country's assets, President Rahmon sees it as a means of generating income for himself, his family members, and his inner circle. Although it is a state asset, decisions about the company are not made in the best interests of the country. Partial or full privatization would provide the basis for investment in the company, more efficient production, and a stronger financial base for the country. This, however, is unlikely, given President Rahmon's personal interest in the company.

¶11. (SBU) Comment Continued: As with other industries, TALCO's revenue does not contribute to development of the country; rather much of it disappears for off-budget activities and projects, such as palaces and lavish state entertainments. The people of Tajikistan effectively subsidize TALCO, by living without adequate health services, education, or electricity. Hundreds of millions or even billions of dollars have disappeared from the company since 1992, and the huge subsidies TALCO receives in the form of cheap electricity are draining enormous resources from the Tajik economy. End Comment.

JACOBSON